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SUBJECT: OMANI BANKS REMAIN FLUSH WITH LIQUIDITY

REF: MUSCAT 466

Classified By: CDA Alfred F. Fonteneau, reasons 1.4 b and d

¶1. (C) On June 28, Econoff reviewed the status of Oman's banking sector with Mansour al-Raisi, Banking Examination Manager, Central Bank of Oman (CBO). Raisi noted that with the continued rise in oil prices, Oman's banking system remained flush with liquidity. "If you (a banker) can't make money in this environment, then you shouldn't be in the business," Raisi quipped. He added that the market could absorb additional players, and commented that Bank Sohar, Oman's newest banking institution, was doing very well. By contrast, Raisi expressed concern about the management challenges facing the soon-to-be opened Oman Merchant Bank, which, according to the central banker, "should already be in the market."

¶2. (C) Raisi highlighted current liquidity levels as the bank's top concern, stating, "It's a good time to make a bad loan." For this reason, he advised that the CBO is continuing to warn banks about prudent lending practices. It also has taken steps to reign in inflation, such as reducing commercial banks' lending ratio and increasing their minimum reserve requirements (ref). However, Raisi acknowledged that these measures would have limited effect on Oman's inflationary woes, given the hefty government investment in the economy, coupled with supply squeezes in food and building materials. He reaffirmed recent press statements made by CBO Executive President Hamoud al-Zadjali, however, that Oman would retain its dollar peg at the current rate of exchange. Raisi continued that the bank's position on the peg has disappointed those Omanis who "brought their money home" in anticipation that the Omani rial would be revalued.

¶3. (C) On the presence of two Iranian banks in the Omani market, Raisi replied that Bank Melli and Bank Saderat remain generally insignificant players. "One doesn't even have an ATM machine," Raisi mused. He noted that the two banks' loan portfolios were small, and that their appeal rested with a limited number of prospective clients who weren't able to get what they needed from Oman's larger commercial banks. Econoff stressed the importance of continuing the close cooperation between the USG and Oman in ensuring that the Sultanate banking sector was not being used by Iranian entities to circumvent measures imposed by the UN Security Council. Raisi reassured Econoff that the CBO keeps close tabs on the two Iranian banks.

¶4. (C) Comment. In addition to its attempts to reign in inflation while remaining pegged to the dollar, the Central Bank faces another challenge: retaining talented professionals in the wake of more lucrative job offers from the banks they regulate. As a case in point, Raisi will be leaving the Central Bank in October in order to take a better paying position in Oman's private banking sector. End Comment.

